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TAGS: [ECON](#) [EFIN](#) [KTFN](#) [PGOV](#) [GR](#)
SUBJECT: MINFIN BULLISH ON GOG'S PRE-ELECTION ECONOMIC
RECORD, LESS ENGAGED ON FATF CRITICISM

Classified By: A/DCM Barry Levin, Reason 1.4 (b,d)

1. (C) SUMMARY: Econ Counselor and Econ deputy met with Ministry of Economy and Finance SecGen Ioannis Sidiropoulos August 9 to take his pulse on economic developments in advance of presumptive fall elections, and to see how the GOG is responding to the FATF's very critical report on Greece's performance in implementing measures to prevent money laundering and terrorist financing. Sidiropoulos reviewed the GOG's strong macroeconomic performance over the past four years, citing solid GDP growth, lowered budget deficits and inflation, lower tax rates, and higher private investment rates. He also explained the new measures the GOG is undertaking to soften any social impacts of the ND government's free market and fiscally restrained (as compared to the PASOK's) economic policies. The key new program will be a 2 bn euro social cohesion fund, meant to bring Greece's poverty rates toward EC norms by supplementing up to 1,000 euro/yr. pensions and incomes for the poorest Greeks. On AML/TF, despite the MinFin's official coordinating role, Sidiropoulos was less well informed on how the GOG will respond to the FATF's review. His staff focused on Greece's responsibility to address the relevant EU ML/TF directives before the end of this year. END SUMMARY

It's the Economy, Stupid

2. (C) Econ Counselor and his deputy met August 9 with Ministry of Economy and Finance Secretary General Ioannis Sidiropoulos to discuss the GOG's economic outlook during the pre-election period and to determine how the GOG has organized itself to respond to the FATF's very critical peer review of Greece, which was made public in June. Sidiropoulis was eager to lay out the ND government's macroeconomic achievements over the past four years, noting in particular that ND's solid record has been based on free-market policies, and not on Olympics-related spending, as had been the case with the previous government. Reading from a cheat sheet comparing the 2000-2003 (PASOK) period to 2004-2007 (ND) period, he ticked off improvements in inflation (down from average of 3.4 percent to 3.1 percent, even as energy costs explode), and budget deficit (down from 6.2 percent to 2.4 percent of GDP), even as while keeping GDP growth above 4.1 percent after the "distortions" of PASOK's pre-Olympic spending spree. He also noted the lower overall tax rate (down to 39.2 percent from 39.6 percent). Sidiropoulis underscored that this strong record was achieved on the back of higher than ever rates of private investment, which demonstrated the essential soundness of ND's reforms and performance.

3, (C) Speaking to us the day after the GOG announced the creation of a new "social cohesion fund" (which, in a quick,

sharp reaction from opposition parties was publicly criticized as pre-election grandstanding), Sidiropoulis explained that the GOG was also taking several measures to soften any negative impacts of its free market reforms. One measure would be to increase the salaries of lower level military officers (from 795 to 860 euros/month) thus reducing the gap between lowest and highest paid officers, at a cost to the budget of 125 million euros. In addition, the social cohesion fund, which would be phased in over three years to a fully funded 2 billion euro per year by 2010, would provide subsidies of up to 1,000 euro/yr. to the poorest employees and pensioners. Sidiropoulos said that the measure would eventually bring the percentage of Greeks living below the poverty level from 21 percent down to the EU norm of 15 percent. Resourcing for the fund will be split between proceeds from public lotteries and casino taxes, from privatization proceeds, and the general budget (fifty percent). He acknowledged that the GOG has been less efficient than other European countries in using fiscal measures to reduce poverty, and will need under the new government to undertake structural reforms of the system of pension and social benefits, as Greece's demographic trends would otherwise result in thirty percent of the GDP going to transfer payments within twenty years.

FATF, What FATF?

14. (C) Asked how the GOG is organizing itself to respond to the FATF's June-issued peer review, which noted a great number of shortcomings in Greece's ability to monitor and counter terrorist financing and money laundering, Sidiropoulos appeared disengaged. He said the Greek FIU, an

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independent agency whose capacity was severely criticized in the FATF report, was still bringing qualified people on board, and that its budget would become a separate line item from that of MinFin in the next budget cycle. While he did note that the GOG plans to complete a Ministerial decision to create an insurance regulating committee (note: the lack of which was another element of the FATF criticism), he was not able to respond to questions from the FATF report in any great detail, and eventually called in two staff members: Head of Financial Crimes Unit Eleni Belesioti, and Efthalia Kapitsina. The two acknowledged gaps in Greece's legal framework, and said they were concentrating on addressing the EU ML/TF directives, which had a December 2007 deadline. They undertook to share with us a draft of their action plan for addressing the FATC criticisms when we next meet, in late August.

15. (C) COMMENT: ND is playing its good economic hand to the hilt -- and we agree their hand, while not quite a straight flush, is at least something like a full house, tens over fours. The opposition will try to develop a straight to win by accreting criticisms of ND's record. As we have reported before, with ND only about 1 percent ahead in recent polls, both parties are fighting for every vote. Economic issues of direct concern to the USG such as IPR and especially AML/TF do not resonate with the voters here and thus are not high on the GOG's pre-election action list. On FATF, our encounter demonstrated the nature of the problem here -- senior officials don't get it and working level officials, while dedicated, aren't getting the resources to get the situation under control in conformance with relevant UNSCRs and FATF-related obligations. Additionally, in an introductory call with new MFA SYG Agathocles on August 10, Charge outlined the problems outlined in the FATF report, noting its conclusion that Greece's legal framework left it extremely vulnerable. While unfamiliar with the report, Agathocles noted that the GOG was under pressure from the EU as well on this issue. Post does not foresee quick movement on AML/TF, but will keep pressing. END COMMENT.
COUNTRYMAN